



# Lockheed Martin Corporation

## 3<sup>rd</sup> Quarter 2016

### Financial Results Conference Call

### October 25, 2016

### 11:00 am EDT



Webcast login at [www.lockheedmartin.com/investor](http://www.lockheedmartin.com/investor)  
Webcast replay & podcast available by 2:00 p.m. EDT  
October 25, 2016 at [www.lockheedmartin.com/investor](http://www.lockheedmartin.com/investor)  
Audio replay available from 2:00 p.m. EDT  
October 25, 2016 through midnight October 26, 2016  
Access the audio replay at:  
855-859-2056 U.S. and Canada  
404-537-3406 International  
Replay confirmation code: 77113724

# Forward-Looking Statements



This presentation contains statements that, to the extent they are not recitations of historical fact, constitute forward-looking statements within the meaning of the federal securities laws, and are based on our current expectations and assumptions. The words “believe,” “estimate,” “anticipate,” “project,” “intend,” “expect,” “plan,” “outlook,” “scheduled,” “forecast” and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks and uncertainties. Actual results may differ materially due to factors such as: our reliance on contracts with the U.S. Government, all of which are conditioned upon the availability of funding; declining budgets; affordability initiatives; the implementation of automatic sequestration under the Budget Control Act of 2011 or Congressional actions intended to replace sequestration; risks related to the development, production, performance, schedule, cost and requirements of complex and technologically advanced programs including our largest, the F-35 program; economic, industry, business and political conditions (domestic and international) including their effects on governmental policy; our success in growing international sales and expanding into adjacent markets and risks associated with doing business in new markets and internationally; the competitive environment for our products and services, including increased market pressures in our remaining services businesses, competition from outside the aerospace and defense industry and increased bid protests; planned production rates for significant programs and compliance with stringent performance and reliability standards; the performance of key suppliers, teammates, venture partners, subcontractors and customers; the timing and customer acceptance of product deliveries; our ability to attract and retain key personnel and transfer knowledge to new personnel; the impact of work stoppages or other labor disruptions; the impact of cyber or other security threats or other disruptions to our businesses; our ability to implement and continue capitalization changes such as share repurchase activity and payment of dividends (including in the event of a deficit in stockholders’ equity, the availability of sufficient net earnings to permit such distributions under Maryland law), pension funding and/or debt activity as well as the pace and effect of any such capitalization changes; our ability to recover certain costs under U.S. Government contracts and changes in contract mix; the accuracy of our estimates and projections; risk of a future impairment of goodwill or other long-term assets; movements in interest rates and other changes that may affect pension plan assumptions, stockholders’ equity, the level of FAS/CAS earnings and actual returns on pension plan assets; realizing the anticipated benefits of acquisitions or divestitures, ventures, teaming arrangements or internal reorganizations, and our efforts to increase the efficiency of our operations and improve the affordability of our products and services; our ability to successfully integrate the Sikorsky business and realize synergies and other expected benefits of the acquisition and the impact of oil and gas trends on financial performance; adjustments required as a result of the ongoing purchase accounting analysis related to the Sikorsky acquisition; risks related to whether the Corporation is able to realize the intended benefits and anticipated tax treatment of the divestiture of its former IS&GS business segment and merger with Leidos in a Reverse Morris Trust transaction; the adequacy of our insurance and indemnities; materials availability; the effect of changes in or interpretation of: legislation, regulation or policy, including those applicable to procurement (including competition from fewer and larger prime contractors), cost allowability or recovery, accounting, taxation, or export; and the outcome of legal proceedings, bid protests, environmental remediation efforts, government investigations or government allegations that we have failed to comply with law, other contingencies and U.S. Government identification of deficiencies in our business systems. These are only some of the factors that may affect the forward-looking statements contained in this presentation. For a discussion identifying additional important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the Corporation’s filings with the SEC including, but not limited to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” in the Corporation’s Annual Report on Form 10-K for the year ended Dec. 31, 2015 and quarterly reports on Form 10-Q. The Corporation’s filings may be accessed through the Investor Relations page of its website, [www.lockheedmartin.com/investor](http://www.lockheedmartin.com/investor), or through the website maintained by the SEC at [www.sec.gov](http://www.sec.gov). Except where required by applicable law, the Corporation expressly disclaims a duty to provide updates to forward-looking statements after the date of this presentation to reflect subsequent events, changed circumstances, changes in expectations, or the estimates and assumptions associated with them. The forward-looking statements in this presentation are intended to be subject to the safe harbor protection provided by the federal securities laws.

# 3Q 2016 Overview



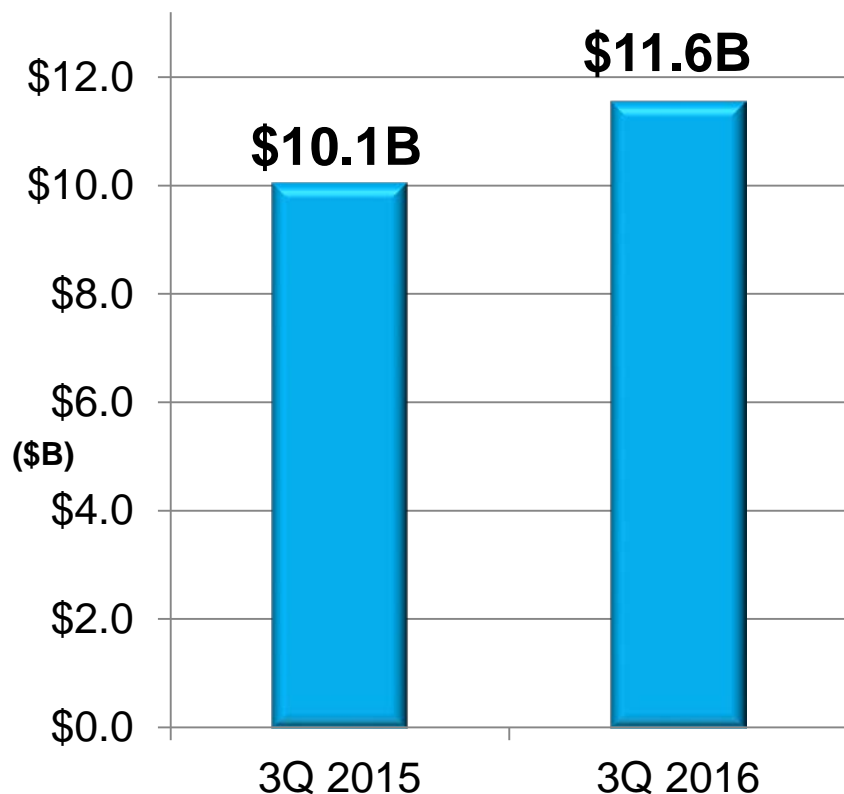
- **Achieved Sales of \$11.6 Billion**
- **Achieved Segment Operating Profit\* of \$1.4 Billion and Earnings Per Share from Continuing Operations of \$3.61**
- **Generated \$1.3 Billion in Cash From Operations**
- **Completed Strategic Actions, Including RMT Split-off of IS&GS and Obtaining Controlling Interest in AWE Joint Venture**
- **Updated 2016 Outlook for Sales, Operating Profit, Earnings Per Share and Cash From Operations**

**Strong Operational Results**

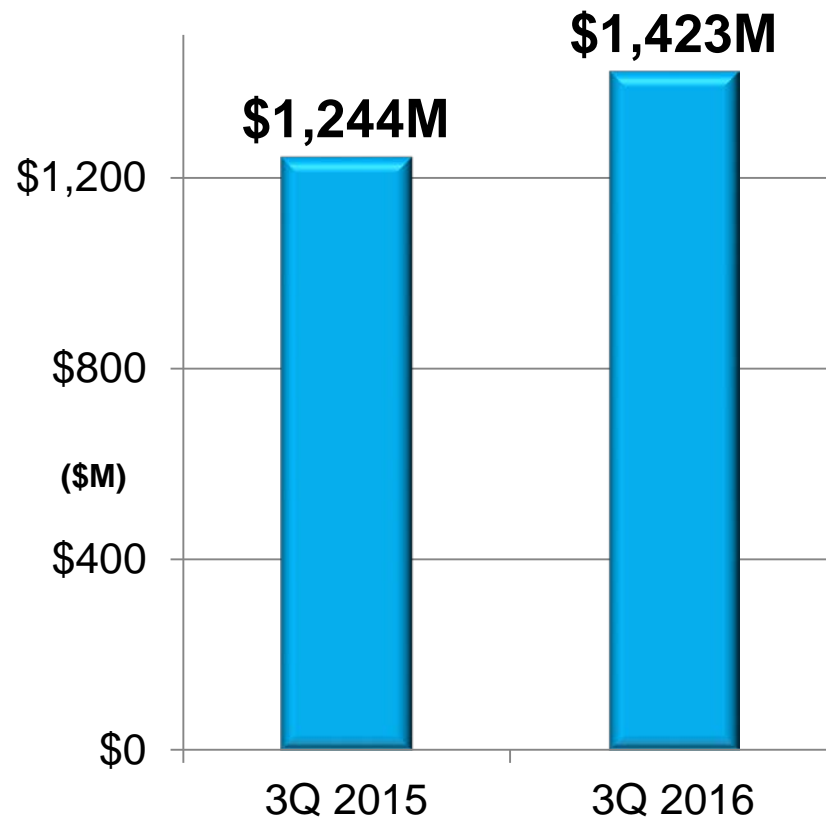
# 3Q Sales and Segment Operating Profit\*



## Sales



## Segment Operating Profit



**Sales and Segment Operating Profit Exceeded Expectations...Enabled Increased Full-Year Outlook**

# Key 2016 E.P.S. Components

(\$ E.P.S.)



## Key Earnings Revisions Previewed in July Earnings Call

### Continuing Operations Elements

- Atomic Weapons Establishment (AWE) Book Gain
- AWE Intangible Amortization
- FAS/CAS Pension Adjustment Revision Due to IS&GS Removal (\$75M)
- Sikorsky Purchase Accounting Update

**Total**

E.P.S. Impact Favorable / (Unfavorable)	
3Q	Full Year
\$0.34	\$0.34
(0.01)	(0.06)
(0.04)	(0.15)
(0.02)	(0.02)
<b>\$0.27</b>	<b>\$0.11</b>
\$4.32	\$4.97

### Discontinued Operations Elements

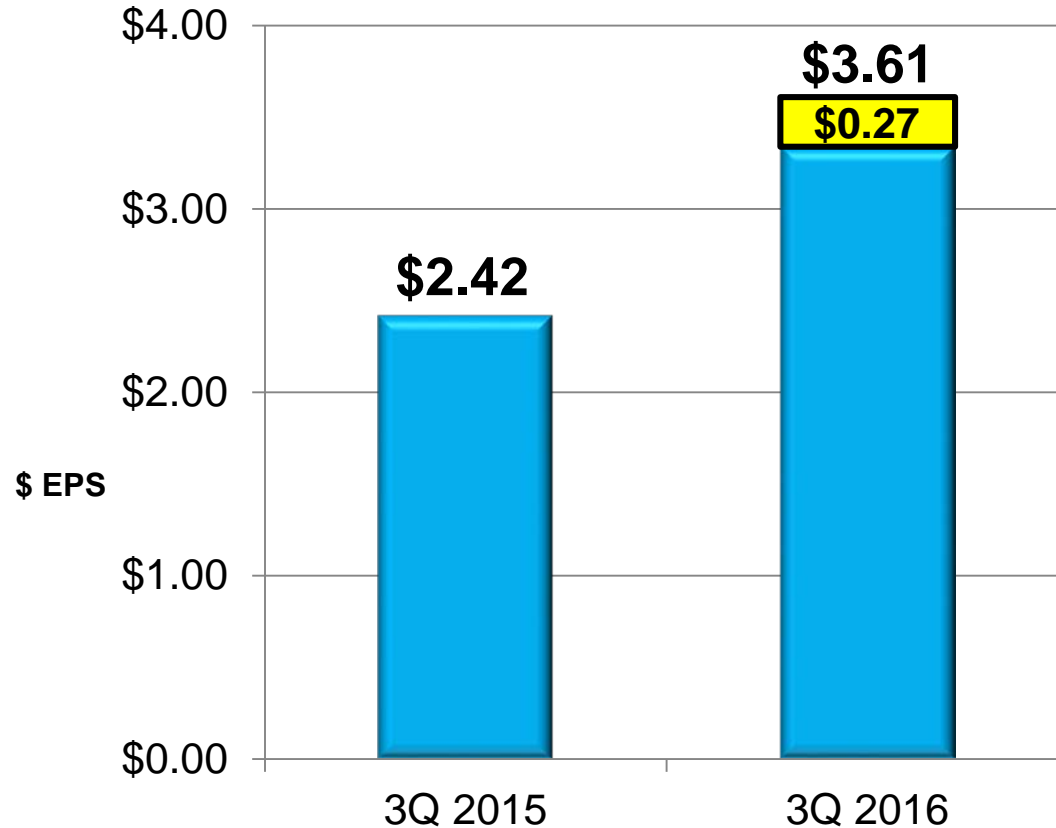
- IS&GS Operations and Disposition Book Gain (~\$1.2 Billion)

**E.P.S. Events Previewed in July Call  
Incorporated in 3Q Results & Full-Year Outlook**

# 3Q Earnings Per Share - Continuing Ops



## Earnings Per Share

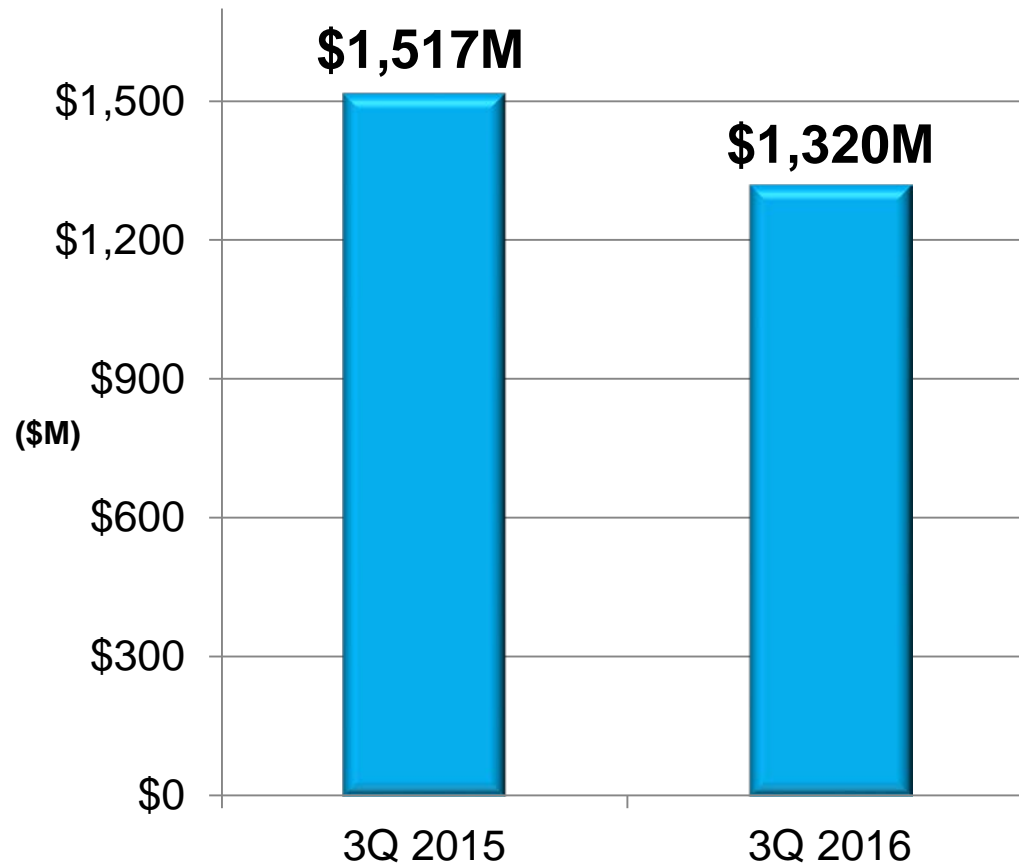


**Strong E.P.S. Growth**

# 3Q Cash From Operations

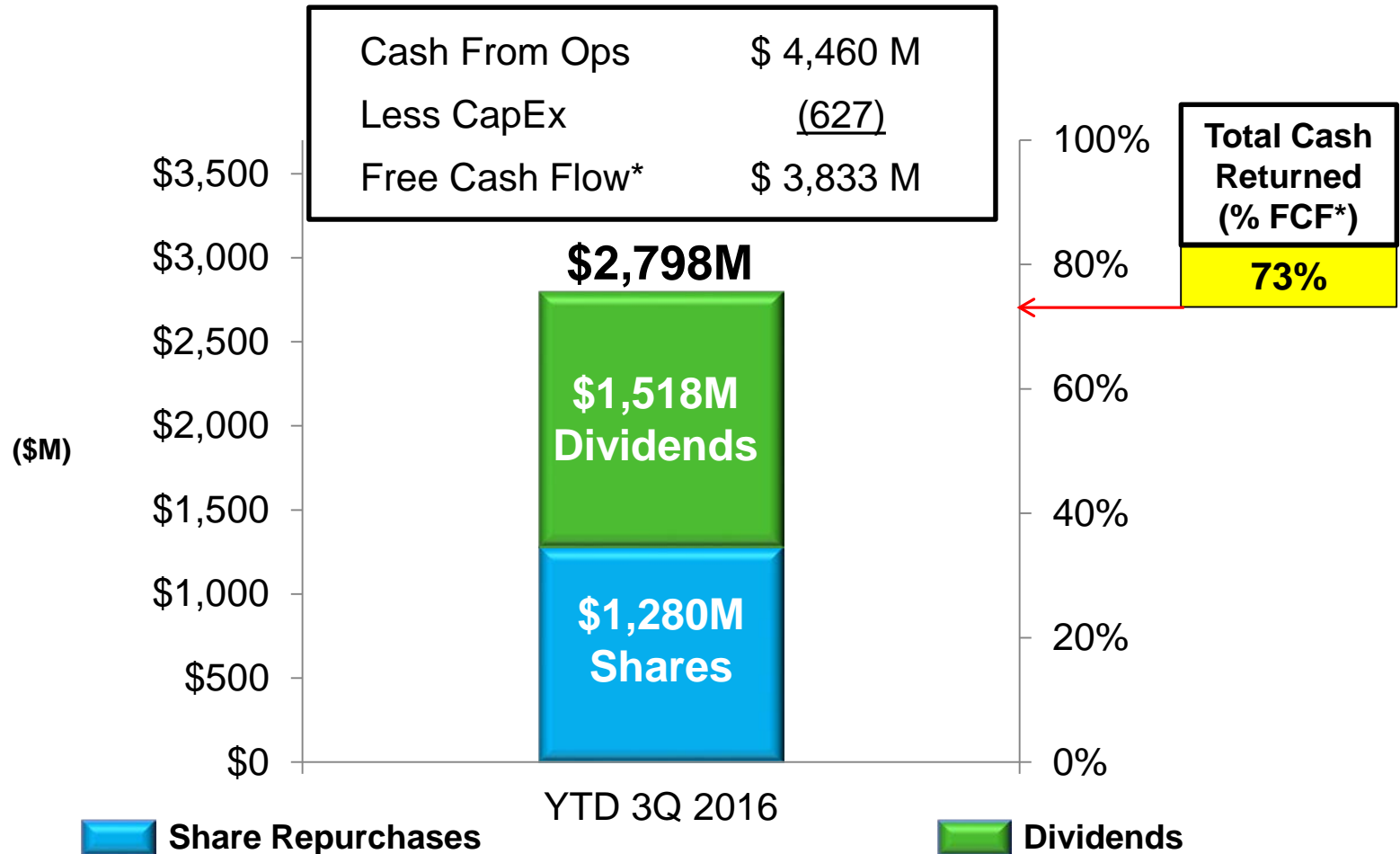


## Cash From Operations



**Solid Quarterly Cash Generation**

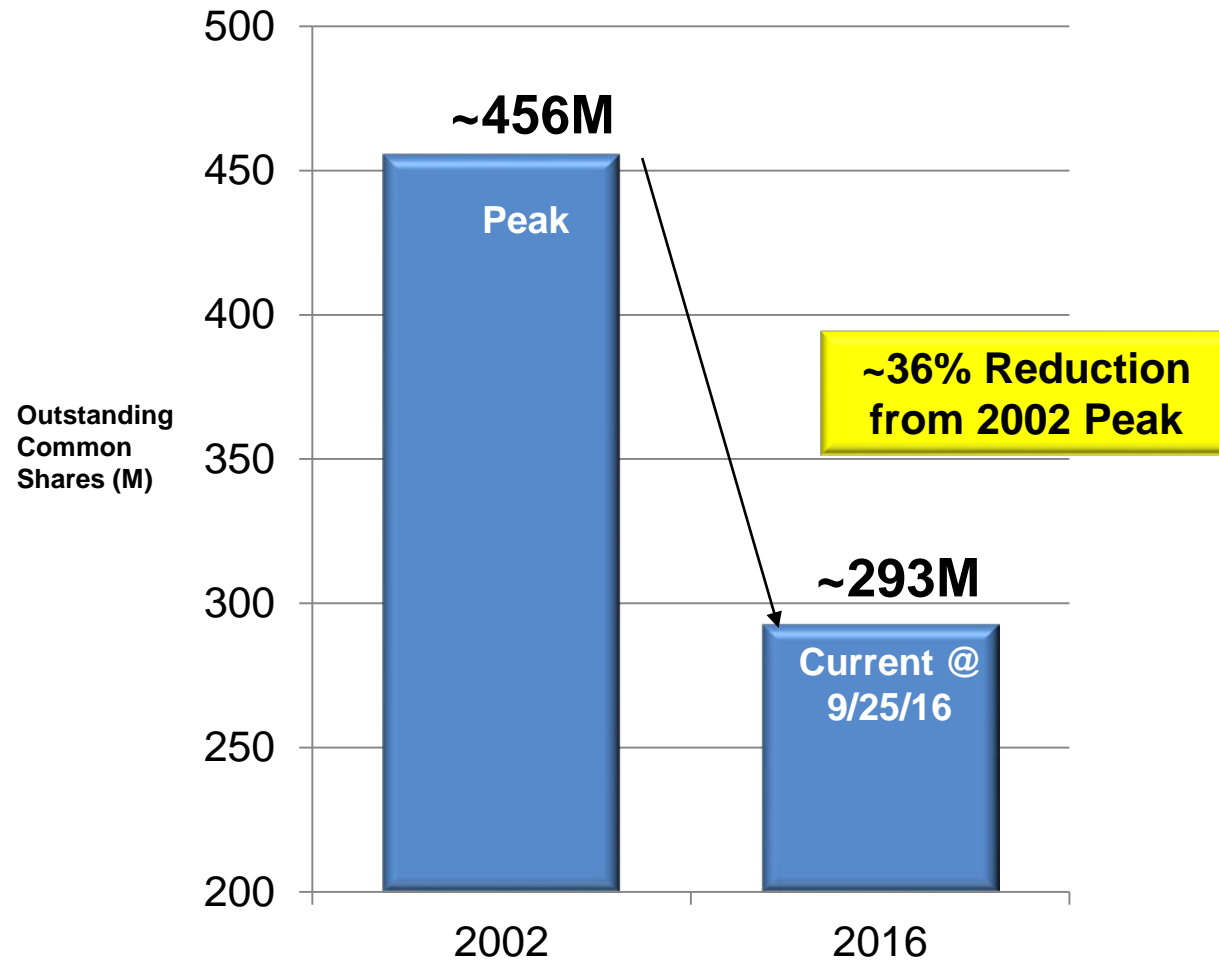
# Cash Returned to Stockholders - YTD



**Continue to Return Cash to Stockholders...3Q Increase in Quarterly Dividend Rate and Repurchase Authority**



# Common Shares Outstanding



**Tracking Towards Early Achievement of Share Reduction Goal**

# 2016 Outlook Update

Continuing Operations (\$ Million, Except E.P.S.)



	July Outlook	July Outlook Adjusted for IS&GS	Current Outlook Adjusted for IS&GS
Net Sales	\$50,000 - \$51,500	\$45,000 - \$46,200	~ \$46,500
Segment Operating Profit*	\$5,150 - 5,300	\$4,720 - \$4,840	~ \$5,025
<b><u>Unallocated Items</u></b>			
FAS/CAS pension adj.	975	900	900
Special item - severance	~(100)	~(80)	~(80)
Other, net	~(300)	~(340)	~(340)
Operating Profit	\$5,725 - 5,875	\$5,200 - 5,320	~ \$5,505
Diluted E.P.S., Continuing Ops	\$12.15 - 12.45	\$11.15 - \$11.45	~ \$12.10
Cash from Ops with F-35 Collection in 2016**	≥\$5,500	≥\$5,350	≥\$5,700
Cash from Ops with F-35 Collection in 2017**			≥\$5,000

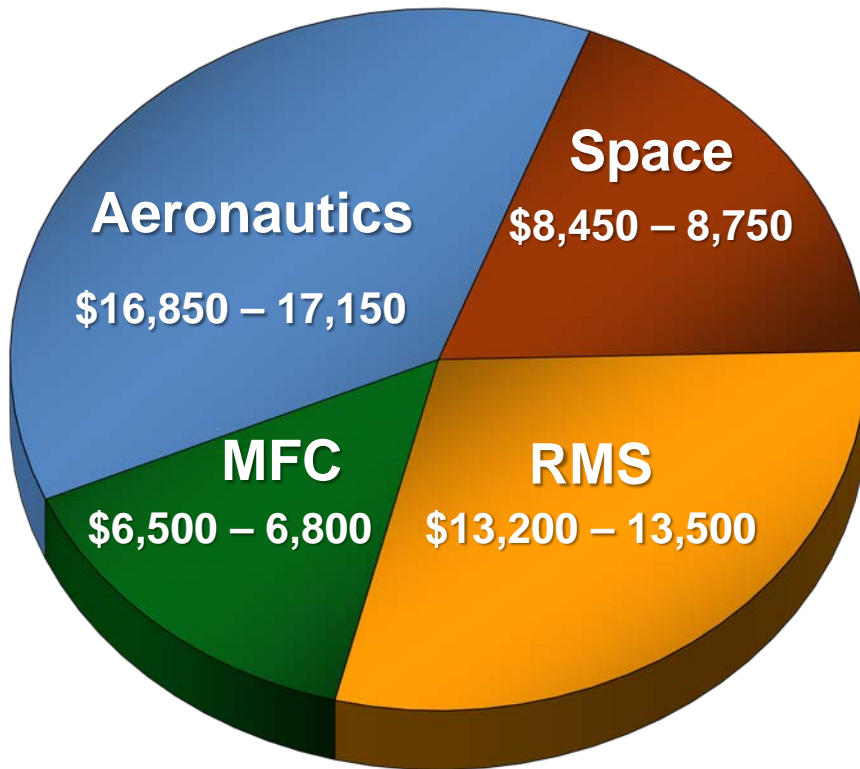
\*\*Cash Collections Associated with LRIP Negotiation Timing

# 2016 Sales Outlook

(\$ Million)

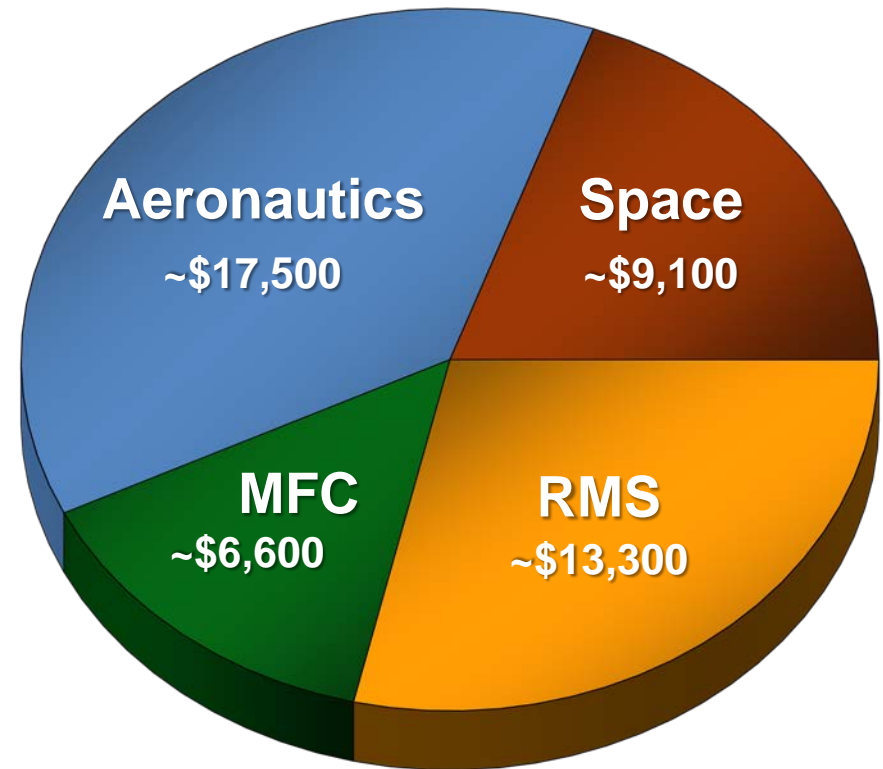


## Sales (Prior)



**\$45,000 - 46,200M**

## Sales (Current)



**~\$46,500M**

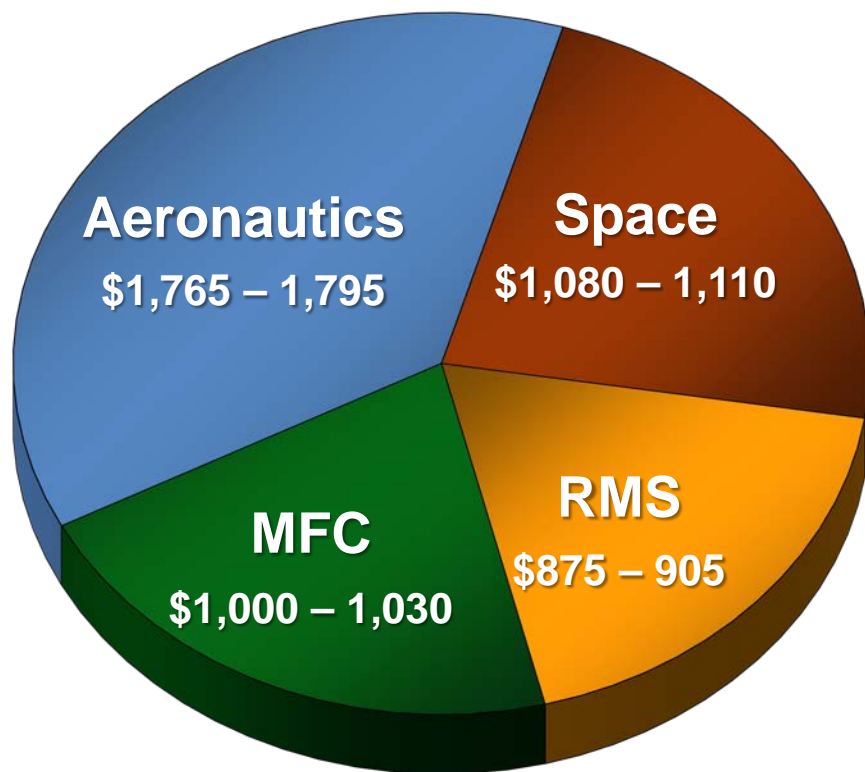
**Sales Mid-Point Increased by \$900M**

# 2016 Segment Operating Profit\* Outlook

(\$ Million)

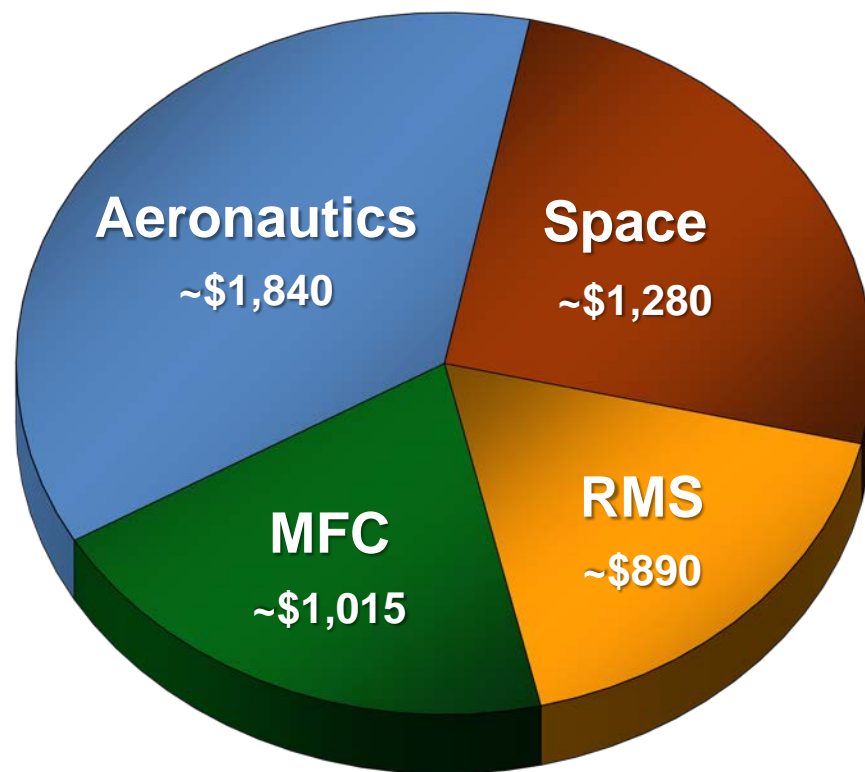


## Segment Op Profit (Prior)



**\$4,720- 4,840M**

## Segment Op Profit (Current)



**~\$5,025M**

**Segment Op Profit Mid-Point Increased By \$245M**

# Preliminary Trends - 2017



## 2017 Outlook

- **Sales Increase ~7% from 2016 Level**
- **Segment Operating Margin\* 10.0% – 10.5%**
- **Cash from Operations  $\geq$  \$5.7 Billion\*\***
- **Share Repurchases  $\geq$  \$2.0 Billion**

## Pension Outlook

- **2017 FAS/CAS Adjustment ~\$800M Income**
  - **Assumes 3.625% Discount Rate at Year-End 2016**
  - **Assumes 8.0% Return on Assets in 2017**
  - **Immaterial Contributions to Pension Trust in 2017**
  - **Longevity Table Update**

**Strong Performance Continuing in 2017**

\*See Chart 18 for Definitions of Non-GAAP Measures

# Longer Term Trends - Cash From Operations

(\$ Billion)



(Established Goal in October 2014)

**Prior Goal**

**≥ \$15 Billion Cum  
For Years 2015 to 2017**

(Established Goal in October 2016)

**New Goal**

**≥ \$15 Billion Cum  
For Years 2017 to 2019**

2015 Actuals	Potential Outcome With F-35 Timing Event*	
	2016	2017
\$5.1B	\$5.0B	\$5.7B

\$15.8 Billion

**✓ On-Track to Exceed  
Prior 3 Year Goal**

**Pension Cash  
Contributions**

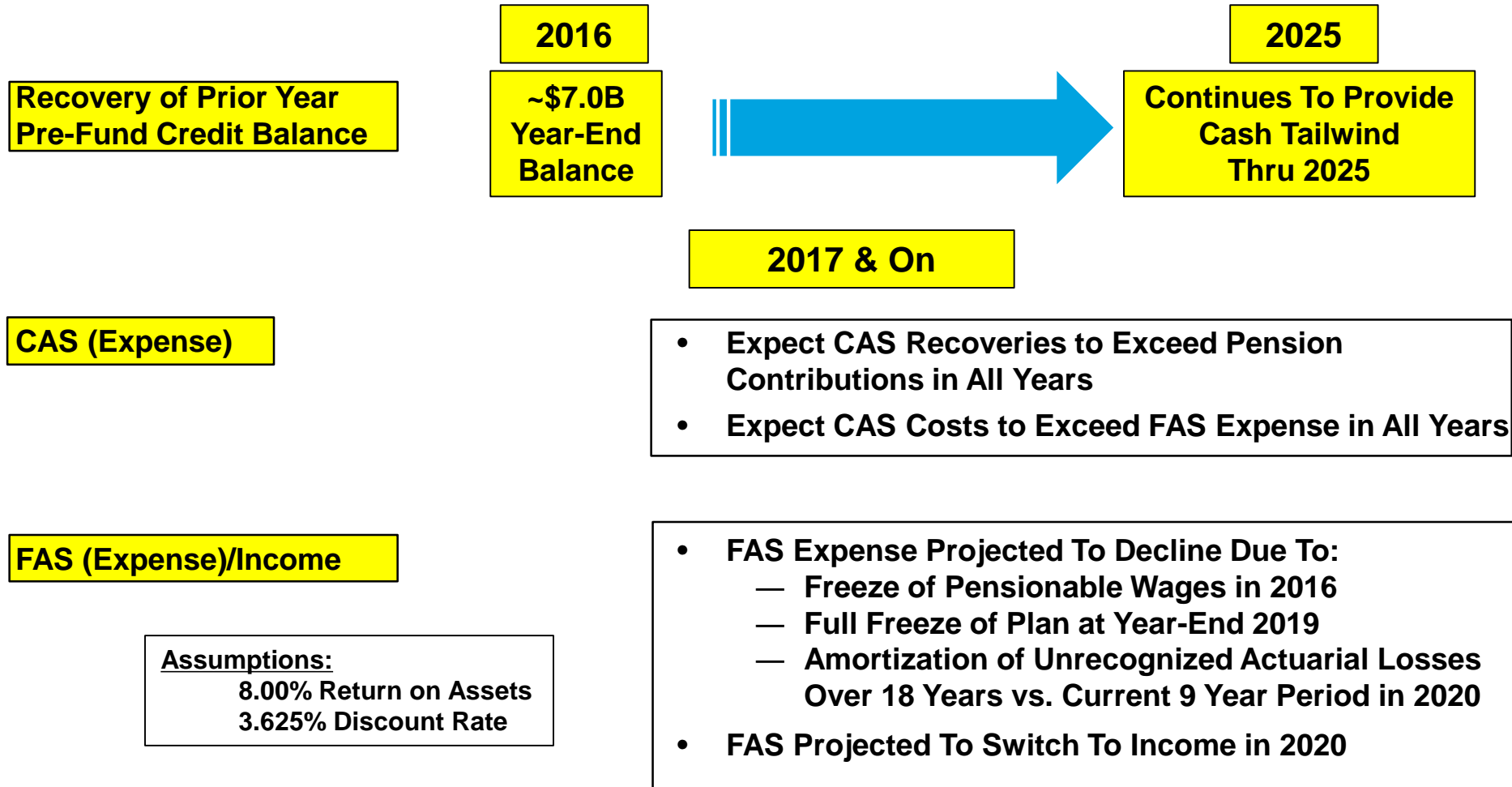
● Immaterial in 2015 to 2017

● Cash Contributions in 2018 & 2019

**Robust Operating Cash Continues at Current Levels Even With  
Resumption of Pension Cash Contributions in 2018 & 2019**

# Longer Term Trends - Pensions

(\$ Billion)



**Expected Pension Tailwind Benefits To Both Cash Flow and Earnings**

# Summary



- **Strong Operational and Financial Performance**
- **IS&GS RMT Exchange Offer Completed...Retired ~9.4M Shares and Received \$1.8B Special Cash Payment**
- **Strategic Actions Strengthened Portfolio and Enables Growth Opportunities**
- **Favorable Long Term Pension Trends**

**Positioned to Deliver Value to Stockholders**





# Financial Appendix

# Definitions of Non-GAAP Measures



## Non-GAAP Financial Measures Disclosure

This presentation, and today's conference call remarks, contain non-Generally Accepted Accounting Principles (GAAP) financial measures (as defined by SEC Regulation G). While we believe that these non-GAAP financial measures may be useful in evaluating Lockheed Martin, this information should be considered supplemental and is not a substitute for financial information prepared in accordance with GAAP. In addition, our definitions for non-GAAP measures may differ from similarly titled measures used by other companies or analysts.

## Free Cash Flow

Lockheed Martin defines Free Cash Flow (FCF) as Cash From Operations less Capital Expenditures.

## Segment Operating Profit / Margin

Segment Operating Profit represents the total earnings from our business segments before unallocated income and expense, interest expense, other non-operating income and expense, and income tax expense. This measure is used by our senior management in evaluating the performance of our business segments. The caption "Total Unallocated Items" reconciles Segment Operating Profit to Consolidated Operating Profit. Segment Margin is calculated by dividing Segment Operating Profit by Sales. Mid-point Segment Margin represents the mid-point of the outlook range for Segment Operating Profit divided by the mid-point of the outlook range for Sales.

(\$ Millions)	2016 Outlook (July)	Adjusted for IS&GS Disposition	
		2016 Outlook (July)	2016 Outlook (October)
Sales	\$50,000 – 51,500	\$45,000 – \$46,200	~\$46,500
Segment Operating Profit	\$5,150 – 5,300	\$4,720 – \$4,840	~\$5,025
Mid-Point Segment Margin	10.3%	~10.5%	~10.8%
Consolidated Operating Profit	\$5,725 – 5,875	\$5,200 – \$5,320	~\$5,505

	3Q 2016			3Q 2015		
	Sales	Profit	Margin	Sales	Profit	Margin
Segment Operating Profit	\$ 11,551	\$ 1,423	12.3%	\$ 10,060	\$ 1,244	12.4%
Total Unallocated Items	-	165		-	(52)	
Consolidated Operating Profit (GAAP)	\$ 11,551	\$ 1,588	13.7%	\$ 10,060	\$ 1,192	11.8%

